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USSR Report

ECONOMIC AFFAIRS

(FOUO 15/81)



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INVESTMENT, PRICES, BUDGET AND FINANCE

PRODUCTION INTEGRATION FOR INVESTMENT EFFICIENCY URGED

Moscow VOPROSY EKONOMIKI in Russian No 6, Jun 81 pp 33-40

/Article by Ye. Bersheda, Kiev: "Integration of Sectors and Industries in the Investment Process"/

/Text/ The overall approach to the planning of interconnected sectors of the national economy envisaged in "Basic Directions in the Economic and Social Development of the USSR for 1981-1985 and for the Period Until 1990" requires the study of integration processes in the national economy. The integration of sectors and industries having a general goal orientation toward the attainment of final national economic results leads to the creation of intersectorial formations.

At present the dependence of the results of capital construction on the economic sectors connected with them intensifies, which necessitates an investigation of the integration of sectors and industries in the investment process. Academician T. Khachaturov includes the construction industry, industrial sectors providing construction with materials and equipment, the timber and wood processing industry, machine building and metalworking and ferrous metallurgy in the set of capital forming sectors.¹

In the course of industrialization of construction a number of technological functions are separated from it and assigned to industrial sectors. Overall schemes for the creation of fixed capital are developed and realized in industry and production processes in industry and construction gradually become a single interconnected process. Industry and construction are transformed from relatively independent links to a system of integrated industrial building production oriented toward final results.

An analysis of intersectorial production relations of construction based on the indicators of the USSR intersectorial report balance of production and distribution of products in 1972 has shown that, of the sectors of material production included in it, construction is the largest consumer of the output of machine building and metalworking, of the construction materials industry and of the sectors of the timber, wood processing and cellulose-paper industry. The proportion of material

1. See T. Khachaturov, "Ways of Increasing the Efficiency of Capital Investments" (VOPROSY EKONOMIKI, No 7, 1979, p 123).

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expenditures on the construction of machine building and metalworking enterprises, whose output requires installation and material expenditures of these sectors, comprises 41 percent. In the construction materials industry this indicator is 76 percent and in the sectors of the timber, wood processing and cellulose-paper industry, 44 percent. Construction is also a major consumer of metallurgical output.

Scientific and technical progress and the development of social division and cooperation of labor lead to the appearance of new participants in the investment process. Meanwhile, the lack of departmental and organizational coordination of enterprises producing fixed capital breaks down the single technological process and hampers the coordination of the diverse needs of its participants. Enterprises producing structures for construction projects or preparing materials not subject to warehouse storage (concrete and solutions), transport organizations and other subdivisions servicing construction, despite their organizational independence, are limited in their activity. Therefore, there is a need for a coordinated and operative regulation of the development of production of the participants in the investment process.

The integration of sectors and industries led to the creation of several types of industrial construction formations oriented toward the manufacture of final output and specialized according to types of built projects. In Soviet practice industrial construction enterprises and associations, as well as agrarian-industrial, exist in the following forms: house building combines, plant building combines, rural construction combines and production construction and installation associations and trusts.

The appearance of organizations performing work at all the stages of the investment process and the transformation of interdepartmental into intradepartmental and, if possible, into intraproduction relations (within the framework of a single enterprise or association) make it possible to subordinate the activity of structural subdivisions to the attainment of the final result--the commissioning of fixed capital. Within the framework of industrial construction formations it is possible to strive for a stabilization of production relations among their components and to attain the greatest correspondence between the produced output (fixed capital) and consumers' interests. The consolidation of enterprises facilitates the solution of the problem of providing the creators of fixed capital with circulating capital.

The transition to an evaluation of the activity of contractors on the basis of finished projects envisaged in the decree of the CPSU Central Committee and the USSR Council of Ministers "On Improving Planning and Strengthening the Influence of the Economic Mechanism on Increasing Production Efficiency and Work Quality" is the new prerequisite for the organization of industrial construction formations. An increase in the responsibility of contracting organizations for finished output determines the need for the further development of existing forms of industrial building production.

Industrial and building production was first combined during the organization of a house building combine in Leningrad in 1959. In the country there are now more than 200 combines, in which the production of structures, their delivery to construction sites and the performance of construction and installation work have been

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unified in a single technological complex. Often house building combines have their own transport facilities, as well as planning and design offices developing technical documents and working on an improvement in the structures of houses and in the technology of their manufacture and installation. As a rule, house building combines acted as a subcontracting organization for the construction of the above-ground part of the building. Below-grade work and the engineering preparation of the building territory were carried out by the general contractor (general construction organization) or by specialized subdivisions on the basis of a contract with it.

However, in a number of cases house building combines are engaged in the manufacture of buildings as a whole, including the underground part, and are even general contractors for the construction of housing tracts. For example, the house building combine in Vilnius has the status of a general contracting organization and performs the entire set of operations from the development of a territory to the provision of public services and amenities in it. The combine is on a single construction balance, which contributes to the development of a single technology of manufacture and installation of the structures of dwelling houses. Such experience was accumulated in the Ukrainian SSR, the Latvian SSR, Leningrad, Alma-Ata, Baku, Gor'kiy, Tallinn and so forth. In this case general construction and specialized organizations engaged in special construction work (performance of below-grade work, laying of external utility lines and provision of public services and amenities) perform the role of subcontractors.

House building combines performing the entire set of operations in the construction of projects ready for operation are becoming more and more widespread. The consolidation of formations (large-panel house construction associations) contributes to this. For example, a large-panel house construction association including all the house building combines in Moscow, main specialized organizations and plants for the manufacture of structures and parts was established in the Main Administration for Housing and Civil Construction in the City of Moscow.

The formation of the new organizational structure in the Main Administration for Housing and Civil Construction of the Kiev City Executive Committee is to be completed by 1985. Five associations and combines, including a large-panel house construction association, a large-unit construction association, the Kiyevpromstroy Combine, a frame construction combine and a scientific production association, in which all the scientific, research and planning subdivisions of the Main Administration for Housing and Civil Construction of the Kiev City Executive Committee are concentrated, will become its basic subdivisions.

The advantages disclosed in the process of operation of house building combines also affected the form of organization of the investment process in industrial construction. The establishment of a plant building combine in Brovary by the Main Administration for Housing and Civil Construction of the Kiev City Executive Committee in 1964 was the first experiment. In the field of construction its activity was limited to the construction of the above-ground part of one-story industrial buildings. An industrial project (shop) prepared for finishing and special construction and installation work is the combine's output. The L'vov, Donetsk, Dnepropetrovsk, Zaporozh'ye and other plant building combines were formed subsequently.

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Subsequently, however, combines began to function as ordinary suppliers and only partially, in the role of organizations assembling the structures, elements of built-in premises and industrial partitions manufactured by them and performing such operations as the filling of openings, roof installation and finishing of buildings. The spread of plant building combines is hampered, because their legal status is determined only by the departmental documents of construction ministries and their activity is limited by general standards.

A number of authors have a negative attitude toward the organization of plant building combines. It is stated that they are unable to manufacture one-series industrial buildings on a mass scale, assemble them in the region of location of combines with the performance of all special and finishing operations and prepare them for commissioning.¹

In our opinion, the advantages of plant building combines are disclosed as the degree of readiness of their output is increased. Such combines should build foundations and perform finishing and other operations connected with the installation of prefabricated structures. Industrial buildings fully prepared for the installation of industrial equipment should become their final output.

At present construction and installation organizations experience considerable difficulties connected with the fact that some work on the preparation of shells of industrial buildings for operation technologically should be performed in parallel with the installation of structures. In practice, it has to be carried out after the completion of work by the forces of plant building combines under hindered conditions of finished frames of buildings, which hampers the delivery of materials, use of mechanisms and efficient work organization. The preparation of shells of industrial buildings for operation should become primarily the duty of plant building combines. As a result, the readiness of building structures will increase. For example, the Krasnoyarsk Experimental Plant Building Combine No 1 erects finished industrial buildings. The elements from which blocks are assembled do not require additional, even welding, work. Buildings are erected by the screwing method.

The formation of rural construction combines began in the last few years. A total of 35 rural construction and rural house building combines were formed in the USSR Ministry of Rural Construction by 1980.² These combines are industrial construction organizations and perform the entire set of operations from the plant manufacture of sets of structures of fully prefabricated buildings to the delivery of projects to clients in finished form. The USSR Ministry of Rural Construction developed and approved "Temporary Instructions for the Organization and Activity of Rural Construction Combines," according to which it is permitted to establish

1. See A. S. Podol'nyy, "The Procedure of Planning the Activity of Construction Ministries Must Be Changed" (EKONOMIKA STROITEL'STVA, No 11, 1978, pp 41-43).
2. See A. S. Miroshnichenko, "Rural Construction Combines: Experience and Problems" (EKONOMIKA STROITEL'STVA, No 7, 1980, p 32).

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combines of various types with due regard for specific local conditions. However, in all cases the following are unified in a single production cycle: industrial manufacture of sets of structures and parts according to the established products list; transportation and supply of full sets of structures and parts; performance of the entire set of construction and special operations on the above-ground part of a building.

The development of industrial construction integration in rural construction is hampered by a number of difficulties, in particular the overwhelming majority of combines are not general contracting combines and their economic production activity is recorded on two balances--industrial and construction. As a result, there is a contradiction between the combine interested in the installation of lightened structures and the reinforced concrete article plant, for which cubic meters of reinforced concrete, not square meters of commissioned production premises, are planned. At the same time, the structures and articles produced at the combine are formulated as commodity output and are transferred to installation organizations at wholesale prices, which makes it possible to increase profit artificially. Superior organs plan for combines a list of structures and articles not only for their own provision, but for that of general construction organizations as well. All this hampers the unification of industrial and construction processes into a single production cycle and many rural construction combines operate as ordinary precast reinforced concrete plants.

It is necessary (as, for example, at the Gatchina Rural Construction Combine) to evaluate the activity of combines according to commodity output with a single construction balance. Under these conditions there is a direct interest in the final results of work and in an increase in the plant readiness of sets of structures and parts produced by combines and reporting is reduced.

At the July (1978) Plenum of the CPSU Central Committee L. I. Brezhnev, discussing the tasks of rural construction, noted the following: "It is a question of the establishment of large rural construction combines designed for the output of sets of light industrial structures of high plant readiness and the construction of production buildings ready for operation from them with a delivery to the client." As of 1979 the Slutsk Rural Construction Combine embarked on bringing a number of projects under construction in Minskaya Oblast up to full construction readiness. The establishment of combines ensuring, like house construction combines, the manufacture and delivery of complete structures of buildings and installations to construction projects is the next task. When necessary, shops for the production of articles used for the development of specific types of projects for the purpose of ensuring their complete delivery to construction projects should be built in direct proximity to the construction combine. It is advisable to assign the appropriate planning and design offices to combines. These offices will attach the standard plans for the projects being established.

The existing procedure of mutual relations between the client and the contractor in the approval of planning estimates, planning of capital investments, approval of title lists and planning and financing of design work needs to be changed. In addition to this, it is necessary to work out provisions for the organization of the work of associations and of their subcontracting organizations taking into consideration the mutual financial interest in shortening the period and lowering

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the cost of construction. The development of construction combines occurs in the direction of expansion of their functions in the investment process. With such work organization combines are transformed into construction firms, from which a finished building or a set of buildings can be ordered. The further expansion of the functions of construction combines should be carried out in stages with due regard for their specific nature, characteristics of functioning and degree of development of cooperation among the participants in the investment process.

The production construction and installation associations and trusts established in a number of the country's regions (Kaliningradskaya Oblast of the RSFSR, Aktyubinskaya Oblast in the Kazakh SSR and so forth), which include subdivisions of several sectors of the investment complex and are the result of development of organizational forms of interaction of industry and construction, pertain to existing industrial construction formations.

According to the decree dated 12 July 1979 of the CPSU Central Committee and the USSR Council of Ministers, production construction and installation associations and in individual cases trusts should become the basic cost accounting links in building production. Construction and installation associations and trusts can include, as production units, general construction and specialized construction and installation administrations and organizations, construction industry enterprises, administrations of mechanization, subdivisions for material and technical supply and so forth equated with them.

The question of the structure of construction and installation associations is debatable. For example, there is no unity of views on the need to include planning subdivisions in the structure of associations. Meanwhile, joint work of planning and construction subdivisions in the structure of one organization brings good results. The experience in the establishment of planning and construction associations in residential housing, reclamation and rural construction attests to this. For example, the following were formed in the Main Administration for Housing and Civil Construction in the City of Moscow: the planning and construction association No 1 for the construction of the experimental region of Chertanovo; the planning and construction association No 2 for the construction of schools and children's institutions. A planning and construction association for the construction of projects for agricultural purposes was established at the base of the Mosoblstroy-24 Trust. The organizational unification of planners and builders makes it possible to improve the quality of plans, to shorten the time of their development and to improve the relationships among clients, contractors and planners. Planning organizations are able to concentrate efforts on the solution of such important problems as ensuring in plans advanced technology for the manufacture and installation of structures, raising the technical level of planned solutions and so forth. The mutual interest of planners and builders in the results of labor intensifies and additional prerequisites for an increase in the responsibility of capital producers for finished output not only at the moment of delivery to the client, but in the process of its operation as well, appear.

The structure of production construction and installation associations (trusts) can differ and in each specific case depends on the characteristics of the investment process in the region or on the development of a specific type of fixed capital. Along with the elimination of the lack of departmental coordination of

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subdivisions of the investment complex operating on the same territory the formation of construction and installation associations and trusts will make it possible to concentrate in them a significant number of the functions now performed by clients and to relieve client organizations from work not characteristic of consumers on providing construction with technical documents, materials, equipment and so forth. Functions of conclusion of contracts for the performance of start-up and adjustment work and technical supervision with the appropriate organizations should be entrusted to the contractor--the construction and installation association (trust).

The combination of the activity in the manufacture and processing of building materials in a single production process is not something fundamentally new and at one time was characteristic of early forms of construction organization. In the 1930's-1940's construction and installation trusts, along with general construction trusts, included specialized organizations. In contrast to modern trusts they had on their balance brick, reinforced concrete and concrete plants, open-pit facilities, machine shops, saw milling and wood working capacities, various equipment and motor transport. The presently established construction and installation associations and trusts are called upon to combine economic independence in the solution of many important problems of former trusts and the high level of technology and of labor productivity and the low production costs of the output of existing trusts.

In the organization of construction and installation associations a mechanical unification of subdivisions should be avoided. It would be advisable to develop methodological recommendations for the planning of the establishment and development of construction and installation associations and the legal principles of mutual relationships of different organizations forming part of them.

The determination of the types and sizes of established formations is an important problem. It should be taken into consideration that the fullest satisfaction of the needs of the national economy requires production units different in the structure, purpose and size and a gradual improvement in their organization.

A significant number of existing investment formations appeared as a result of an organizational merging of existing specialized industrial enterprises and construction and other enterprises technologically connected with them. As building production is industrialized, another path--the establishment of integrated industrial construction formations, in which the capacities of industrial and construction subdivisions are established simultaneously--acquires ever greater importance. In such formations it is possible to avoid the lack of coordination arising during the merging of enterprises and organizations. The technological, economic and organizational integration of various stages in the production of the final product is envisaged at the stage of planning and is ensured by the unified conditions of management, community of the economic interests of producers of industrial and building output and unity of management.

Industrial-construction integration gradually eliminates the administrative-economic limits of industry and construction and serves as the basis for the formation of the investment complex. There is a need to expand the sphere of centralized regulation of the investment process--to ensure a national economic, interdepartmental approach to the development of all sectors and industries included in this

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complex. Such an approach can be realized on the basis of joint planning, financing and management of the development of the investment complex--elaboration of the organizational and economic mechanism of interaction of the group of ministries responsible for the satisfaction of the need of the national economy for fixed capital.

The national economic investment complex should at first become the object of planning and then the object of management as well. The problem of the need for the "organization of a complex of investment sectors including construction sectors, as well as machine building," was first raised by V. Krasovskiy.¹ As a result, conditions can be created for a systematic use of the object program method of management, solution of the problem of combination of sectorial and territorial planning, overcoming of departmental and localistic barriers and elimination of dissipation of capital investments for the further development of industrial construction integration.

A unified management of the investment complex of the country and of the Union republics will contribute to an increase in the balance of sectorial plans at all the levels of management, optimization of intersectorial proportions, more efficient utilization of all the elements in the created investment potential and improvement in final national economic results.

A unified administration of the investment complex will make it possible to examine and analyze the effect of its development on the basis of a single criterion--increase in the volume and improvement in the quality of final output with a simultaneous increase in production efficiency. The management of the investment complex should be carried out on the basis of the elaboration and realization of a single state plan for its development. Along with an improvement in production relations and selection of their rational forms such a plan would be a means of regulation of intersectorial relations. A single plan makes it possible to ensure deliveries of all types of material resources coordinated in time, space and in the quantity, quality and assortment, to offer services to interacting enterprises and to perform the necessary credit and other operations.

Interconnected overall programs for the development of the country's national economic investment complex envisaging the optimum intersectorial proportions and rates of development of every sector on the basis of the tasks of maximization of the final national economic result could be worked out at individual stages of economic development. Each such program can become the basis for the formation of the overall programs and subprograms specifying it and determining the development of republic investment complexes, all-Union (republic) construction and installation associations and other organizational forms of industrial-construction integration. This will make it possible to ensure the continuity of investment cycles and to more fully meet the needs for fixed capital.

In the course of organizational formulation of the national economic investment complex it is possible to lean on the experience of socialist countries in the area of industrial construction integration, as well as on the experience in the

1. See "Investitsionnyye Problemy Narodnokhozyaystvennykh Kompleksov" /Investment Problems of National Economic Complexes/, Izdatel'stvo Nauka, 1975, p 3.

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establishment of multisectorial structures in the national economy of the USSR. For example, the "Stroitel'stvo" National Complex was organized in Bulgaria in 1974. It includes economic, scientific research, planning and other organizations, which on the basis of existing organizational, economic, technical and technological relations should ensure the development of fixed capital. The management of the complex is entrusted to the Ministry of Building Materials. At the same time, the ministry's decisions and orders in the field of construction are also applied to organizations subordinate to other departments.

Even under the conditions of market economy attempts are made to organize large-scale business-like cooperation between manufacturers of building materials and contracting construction organizations. For example, in the United States the organization of owners, which together with departments and affiliates encompasses 150 plants--manufacturers of building materials--and the association of general contractors develop joint programs promoting the development of cooperation for the purpose of information exchange. It is assumed that, as a result of their implementation, manufacturers of building materials will produce output and develop technological processes necessary for meeting the needs of building production. Additional possibilities for the transmission of new information on the manufactured output and its use to contractors also appear.

At present it is still complicated to judge the specific bodies for the management of the investment complex. It should be taken into consideration that enterprises of Union, Union-republic and republic subordination are subject to unification. Apparently, it should be primarily a matter of the first stage in the formation of the investment complex. It is characterized by the strengthening and expansion of the system of existing industrial construction formations and by the supplementation of the existing planning system with new forms and methods of preplan work making it possible to single out in the plan the national economic investment complex and for the most important national economic projects to take into consideration in the capital investment plan the models of industrial construction formations including all the participants in the investment process.

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INVESTMENT, PRICES, BUDGET AND FINANCE

ECONOMIC IMPACT OF PRICE MARK-UPS WEIGHED

Moscow VOPROSY EKONOMIKI in Russian No 6, Jun 81 pp 50-60

/Article by V. Shalimov: "Calculation of Economic Impact in Incentive Mark-ups"/

/Text/ The system of planned price formation is the most important component of the economic mechanism of acceleration of scientific and technical progress. The stimulating role of prices in the implementation of scientific and technical progress lies primarily in the distribution of the national economic impact of new equipment between the spheres of its production and use. A successful realization of this stimulating function contributes to a prompt introduction of the achievements of science and technology into the national economy. "The introduction of scientific discoveries and inventions," stresses the accountability report of the CPSU Central Committee to the 26th party congress, "is now the decisive and most acute area." In connection with this "Basic Directions in the Economic and Social Development of the USSR for 1981-1985 and for the Period Until 1990" envisage increasing the effect of wholesale prices on an improvement in the quality of articles and on an acceleration of the mastering of highly efficient, new and replacement of obsolete equipment. A successful solution of this important problem is connected to a significant measure with the further improvement and development of the economic mechanism of incentive mark-ups and discounts.

The effect of the mechanism of incentive wholesale price mark-ups has a positive effect on the processes of the mastering and production of new equipment. However, its role is weakened by the fact that a sufficiently close dependence of mark-ups on the economic impact has not been established. Therefore, an examination of the ways of establishing such a dependence seems urgent.

A number of measures for an improvement and development of the system of incentive mark-ups and discounts have already been implemented in accordance with the decree of the CPSU Central Committee and the USSR Council of Ministers "On Improving Planning and Strengthening the Influence of the Economic Mechanism on Increasing Production Efficiency and Work Quality." For example, wholesale prices with an incentive mark-up are established for highly efficient, new products corresponding to or surpassing in their technical and economic indicators the best models of Soviet and world science and technology.¹ The economic impact obtained from the production and use of such products is the basis for this. The distribution of the economic impact between producers and consumers of new equipment through the establishment of incentive mark-ups represents a systematically organized and regulated process, whose starting point is a specific ratio between the economic impact and the price (more accurately, the lower price limit).

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The realization of this basic principle of great theoretical and practical importance is ensured by the fact that the specific efficiency of new equipment expressed by the ratio of the economic impact and the wholesale price ($\mathcal{E}:U_{on}$) is the initial condition for the differentiation of the amount of incentive mark-ups. This connects the differentiation of incentive mark-ups with the indicator reflecting the actual efficiency of development of new equipment. The use of the specific efficiency ($\mathcal{E}:U_{on}$) of new articles as such an indicator is more substantiated as compared with the previously used ratio of the upper and lower price ceilings. This amount of the incentive mark-up is made dependent on two restrictions, that is, the normative profit and the economic impact. At the same time, it has not yet been possible to establish the necessary direct dependence of incentive mark-ups on the economic impact.

As an analysis of the use of the system of incentive mark-ups in sectors previously transferred to cost accounting conditions of organization of work on new equipment has shown, the first limitation (in the normative profit) of the amount of the incentive mark-up for the overwhelming part of articles is several orders higher than the second limitation (in the economic impact). For the most important groups of electrical engineering articles at enterprises manufacturing new equipment in 1977-1979 the ratio of the obtained incentive mark-ups to the normative profit was within 75 to 100 percent, that is, in practice, the level of incentive mark-ups corresponded to the previously established ceiling (limitation)--100 percent of the normative profit. The proportion of incentive mark-ups in the distributed economic impact averaged from 6 to 8 percent, which did not correspond to the established limitation in the economic impact (50 percent).

Therefore, the dual dependence of the incentive mark-up (on the amount of the normative profit and the magnitude of the economic impact) is not ensured and it depends only on one limitation--the normative profit. This is due to the following. The efficiency of new equipment determined, as already noted, on the basis of the ratio of the economic impact and the wholesale price is used as the condition for the differentiation of stimulation of the production of new equipment and the amount of the incentive wholesale price mark-up is made dependent on the normative profit, which even indirectly is not connected with the results of use of this equipment in the national economy.

In essence, the establishment of a direct dependence of the incentive mark-up on the normative profit leads to the fact that, first, the amount of additional profit obtained by the manufacturers of new equipment is completely not connected with the magnitude of the economic impact ensured in the national economy and, second, incentive mark-ups are unjustifiably small.² It should be stressed that the interconnection of the cost accounting effect (realized in this case in the form of incentive mark-ups) and of the national economic impact is also disrupted.

Improvement in economic incentives for the production of new equipment sometimes boils down to an increase in the amount of incentive mark-ups to two or three standards of profitability. For example, an opinion is expressed that the "amount of a mark-up should be doubled only (our stress--V. Sh.) for the compensation for the average loss of profit during the renovation of output."³ Thus, an increase in the incentive mark-up to two standards of profitability is considered minimal by the authors. L. Shevchenko believes that the "maximum permissible growth of

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profitability as compared with the sectorial standard for highly efficient equipment... can be increased to three standards of profitability."⁴ At the same time, the authors propose that the amount of the incentive mark-up be established, as before, in percent of the normative profit.⁵

However, the proposed increase in the amount of incentive mark-ups depending on the amount of the normative profit will hardly contribute to an acceleration of the production and expansion of the use of new equipment in the national economy. The problem lies not so much in increasing the amount of additional profit obtained by manufacturers of new equipment as in establishing its real dependence on the economic impact brought by this equipment. Thus, in fact, incentive mark-ups in percent of the normative profit are increasing. In 10 years (from 1969 through 1979) the maximum amount of incentive mark-ups in percent of the normative profit doubled in accordance with the introduced methods, rising from 50 to 125 percent, that is, it increased 2.5-fold. At the same time, in 1969-1971, when the amount of mark-ups was limited to 50 percent of the normative profit, according to V. As-taf'yev's evaluation, their proportion in the economic impact in electrical engineering articles was 4 to 5 percent.⁶ During the subsequent period (1972-1979), when the maximum amount of mark-ups was increased to 100 percent of the normative profit, the share of this additional profit in the economic impact in the electrical engineering industry increased to 6 or 8 percent, that is, it was also approximately doubled.⁷ The subsequent change in the maximum limitation of incentive mark-ups in the normative profit from 100 to 125 percent introduced by the Instructions on the Procedure of Establishment of Incentive Mark-ups (1979) will lead to an increase in the proportion of mark-ups in the economic impact only to approximately 10 to 12 percent.

However, as a result of such an increase in the amount of incentive mark-ups in percent of the normative profit, there is an increase in the absolute amount of additional profit obtained by manufacturers of new equipment, not an intensified dependence of the amount of incentive mark-ups on the magnitude of the economic impact of new equipment. A certain increase in incentive mark-ups in percent of the normative profit (for example, to two standards of profitability) is advisable only for some, especially highly efficient, articles, for which the ratio of the economic impact to the wholesale price is characterized by values limiting for the appropriate groups of products. However, such an increase in the amount of incentive mark-ups will become a real incentive for the expansion of the production of new equipment only if their amount is determined directly in the shares (percent) of the economic impact.

To substantiate the establishment of a direct dependence of the incentive mark-up on the economic impact of new equipment, it is important to also examine the theoretical aspect of the problem. The establishment of a cause and effect relationship of the incentive measure with the final results of the incentive process is the basic condition for the formation of material incentives under socialism. In this case the share of the incentive mark-up in the wholesale price is the measure of incentive for the enterprise manufacturing new equipment. An increase in the number of use values is the final result of the incentive process (the process of production and use of new equipment). However, a direct comparison of use values is impossible. Obviously, this process must occur indirectly.

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The recording, evaluation and comparison of the final results of the production and use of new equipment are possible only on the basis of the national economic impact. Such a functional role of the national economic impact corresponds to F. Engels' thesis that the movement of resources in the new society "ultimately, will be determined by the weighing and comparison of the useful effects of various consumer goods with each other and with the amounts of labor necessary for their production."⁸ The interpretation of the national economic impact as the final result of scientific and technical progress has been substantiated in the economic literature recently. In our opinion, such an understanding of the final results of the production and use of new equipment is justified in theory and practice for the appropriate stage in the examination of the "investigation-production" process at the level of the enterprise manufacturing new equipment.

Specification of the proposals of many economists on the need for the establishment of a close connection between the amount of incentive mark-ups and the absolute magnitude of the economic impact is an important task in the improvement in the economic mechanism of incentive mark-ups.⁹ We made an attempt to represent the dependence of the amount of incentive mark-ups on the magnitude of the economic impact on a methodological basis in the form of specific scales. The calculation of the scales of incentive mark-ups realizing the indicated dependence was made for 12 key consolidated groups of electrical engineering products.

When constructing scales for the determination of the amount of incentive mark-ups on the basis of the dependence on the economic impact of new equipment, the used ratio of the economic impact and of the wholesale price should be retained by the condition (indicator) of differentiation of the amount of incentive mark-ups in percent of the economic impact. In connection with the proposed method of calculation of incentive mark-ups this ratio acquires especially great importance, because it becomes basic for the construction of the appropriate scales of mark-ups (see table 1).

The results of calculations of the ratio of the economic impact and of wholesale prices of electrical engineering products presented in table 1 make it possible to determine a number of the necessary requirements for the construction of scales of incentive mark-ups.

First, in 9 out of the 12 examined groups of electrical engineering products the minimum values of the ratio of the economic impact and of the wholesale price comprise from 5 to 10 percent. Obviously, in accordance with the existing methods incentive price mark-ups can be established only for articles with a specific efficiency (impact-price ratio) of no less than 15 percent. Thus, a single lower limit of efficiency, whose excess should be stimulated, ought to be established for all groups of products. When the ratio of the economic impact and of the wholesale price is less than 15 percent, the problem of the establishment of an incentive mark-up should be considered by price formation bodies in accordance with a special procedure.

Second, analyzing the maximum values of the ratio of the economic impact and of wholesale prices, it should be noted that they are differentiated considerably by groups of articles. For example, for electrical welding equipment this indicator exceeds the maximum specific efficiency of power transformers more than 16-fold.

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Table 1. Initial Data for the Calculation of Scales for the Determination of the Amount of Incentive Mark-ups for Key Groups of Electrical Engineering Products (in %)

Groups of Products	Ratio of economic impact to wholesale price		Normative profitability calculated in relation to production costs
	Minimal value	Maximum value	
Power transformers	10	140	15
High-voltage equipment	10	160	22
Electric lamps	10	170	17
Electric small- and average-capacity machines	10	240	16
Large electric machines and turbo- and hydro-generators	10	260	20
Condensers	10	330	13
Low-voltage equipment	5	330	12
Electric lighting fixtures	10	370	10
Cable articles	20	470	10
Electric insulating articles	10	500	10
Power converters	20	520	18
Electric welding equipment	30	2300	14

Third, the maximum values of the ratios of the economic impact and of wholesale prices in nine groups of electrical engineering products are from 240 to 2,300 percent, which exceeds the corresponding maximum value of efficiency according to the standard scale many times.

However, the Instructions on the Procedure of Establishment of Incentive Mark-ups stipulate that the USSR State Committee on Prices can introduce changes in the standard scale for individual groups of products with due regard for the specific nature of sectors.¹⁰ In our opinion, an objectively determined differentiation of the scales of incentive mark-ups for groups of products depending on the maximum values of the ratio of the economic impact and of the wholesale price would be a concrete realization of this important provision. For example, an analysis of initial data has shown (table 1) that for the examined 12 key groups of electrical engineering products it is advisable to develop 10 differentiated scales of incentive mark-ups (that is, for electric lighting fixtures and cable and electric insulating articles, taking into consideration the close values of specific efficiency and normative profitability, the use of a single scale is proposed).

The stated methodological requirements on the construction of scales of incentive mark-ups are of a general nature and determine the unified approach to the stimulation of the output of new products for production and technical purposes through the mechanism of incentive mark-ups. On their basis we constructed a model scale of incentive wholesale price mark-ups for power transformers, in accordance with which the amount of the incentive mark-up in percent of the absolute sum of the economic impact is differentiated depending on the ratio of the economic impact and of the wholesale price within 15 to 140 percent divided into nine intervals (see table 2).

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Table 2. Scale of Incentive Wholesale Price Mark-ups for Power Transformers

Ratio of economic impact and of wholesale price ($\frac{\partial}{\partial} : 1100 \times 100$, in %)	Amount of incentive mark-up in relation to economic impact (in %)	
	Upon attainment of the lower limit of efficiency interval (n_i)	Reduction per point within the interval (K_i)
15-35	70.0	1.68
36-50	47.1	0.94
51-65	35.8	0.55
66-80	29.64	0.37
81-95	25.76	0.27
96-110	23.1	0.21
111-125	21.15	0.17
126-140	19.66	0.14
over 140	18.2*	-

* But no higher than two standards of profitability

The amount of incentive wholesale price mark-ups for highly efficient, new equipment in relation to the economic impact, that is, the share of mark-ups in the impact, decreases uniformly. For example, the amount of incentive mark-ups in percent of the economic impact (n_i) is reduced from 70 to 18.2 percent. At the same time, the amount of incentive mark-ups in relation to the normative profit increases from 98 to 200 percent. Thus, the amount of the normative profit retains only an indirect limiting effect through the mechanism of calculation of the scales themselves.

In the proposed scale the amount of incentive wholesale price mark-ups for highly efficient, new products was made closely dependent only on the absolute magnitude of the economic impact obtained from the production and use of equipment in the national economy. Proceeding from this it is possible to recommend a formula for the determination of the amount of the incentive wholesale price mark-up on the basis of a differentiated scale:

$$H_n = \frac{\partial \cdot (n_i - \Delta C \cdot K_i)}{100}; \quad (1)$$

where H_n is the incentive wholesale price mark-up (in rubles);
 ∂ is the economic impact of a new article (in rubles);
 n_i is the incentive mark-up in relation to the economic impact upon attainment of the lower limit of the corresponding interval of efficiency according to the scale (in %);
 ΔC is the difference between the actual ratio of the economic impact and of the wholesale price (C_p) for a new article and the lower limit of the corresponding interval of efficiency (C_H), that is, $\Delta C = C_p - C_H$;

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K_i is the percent of reduction in the incentive mark-up per point of excess of the lower limit of the interval of efficiency according to the scale.

We shall present an actual example of the calculation of the incentive wholesale price mark-up for highly efficient, new equipment. The annual economic impact from the production and use (Θ) of the ZMTSZM-100 new power transformer is 454 rubles. The wholesale price (U_{on}) is 950 rubles. The specific efficiency of the new article ($\Theta:U_{on} \times 100$) is 47.8 percent ($454:950 \times 100$). According to the scale (see table 2) this value pertains to the second interval of the ratio of the economic impact and of the price (from 36 to 50 percent) and the incentive mark-up in percent of the economic impact, upon attainment of the lower limit of this interval (n_i), will be 47.1 percent. The difference between the actual ratio of the economic impact and of the wholesale price for the new power transformer and the lower limit of the second interval of efficiency (ΔC) according to the scale is 11.8 percent ($C_{\Phi}-C_H-47.8-36.0$). The percent of reduction in the incentive mark-up per point of excess of the lower limit of the second interval (K_i) according to the scale (table 2) is 0.94.

The incentive wholesale price mark-up for the new power transformer (H) according to formula (1) will be:

$$H_n = \frac{454 \cdot (47.1 - 11.8 - 0.94)}{100} = 163.44 \text{ rubles}$$

Thus, the amount of the incentive mark-up in percent of the absolute magnitude of the economic impact is 36.0 percent ($47.1 - 11.8 - 0.94$ or $163.44:454 \times 100$). The ratio of the incentive mark-up to the normative profit envisaged in the price of the new power transformer is 131.8 percent ($163.44:123.9 \times 100$).

Sometimes, along with recognition of the theoretical legitimacy of establishment of the dependence of the amount of profit taken into account in the prices of new equipment on the magnitude of the national economic impact, practical objections against such a method of calculation of incentive mark-ups are raised. In particular, it is stated that it would be incorrect to remove one of the limitations in the system of distribution of the economic impact between the manufacturer and consumer, leaving one criterion--the total sum of the impact. Usually, this is motivated by the possible rise in the general level of profitability to tens and hundreds of percent in some cases and by the loss of control over the price level.

Such a position seems only partially substantiated. As illustrated by the proposed scale and formula of incentive mark-ups, the use of the economic impact as the only indicator, depending on which the amount of additional profit assigned to the enterprise manufacturing new equipment is calculated, in practice, is possible for the overwhelming majority of new articles. With regard to some, especially highly efficient, articles, for which the ratio of the economic impact and of the wholesale price exceeds the maximum values envisaged by the scales, in fact, a direct limiting effect of the normative profit is needed. For example, if the specific efficiency of the new power transformer exceeds 140 percent, the maximum amount of the incentive wholesale price mark-up for such highly efficient articles is directly limited to 200 percent of the normative profit (to two standards of profitability). At the same time, it should be stressed that in this case as well the normative profit does not determine the amount of the mark-up, but only serves as its upper limit for some, especially highly efficient, articles.

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For the stimulation of the production of new equipment, along with the determination of the amount of incentive mark-ups and the establishment of their close connection with the economic impact, the planning, recording and control of additional profit are of great importance. This is due to the fact that at present incentive mark-ups have a marked and constantly increasing effect on the most important indicators of the production activity of enterprises manufacturing new equipment.

Improvement in the economic mechanism in the area of price formation is directed primarily toward the strengthening of the role of incentive mark-ups in the results of the production and economic activity of enterprises manufacturing new equipment and toward a significant expansion of the sphere of effect of incentive mark-ups for highly efficient, new products, that is, toward the use of stimulating mark-ups in all industrial sectors. In connection with this the increasing mass of incentive mark-ups will have a significant effect not on the results of work of individual industrial sectors, in which the corresponding economic experiments were conducted, but on the structure and proportions of development of the entire national economy.

However, at present the sum of incentive mark-ups is not taken into consideration in plans and the evaluation of their fulfillment is made with due regard for additional profit. Obviously, such a procedure of evaluation of plan fulfillment has a significant stimulating effect on enterprises manufacturing new equipment and it is advisable to preserve it, but only for this purpose. With regard to the system of planning, recording and control of the additional profit obtained from the production of new equipment, some studies rightly point to the need to change such a procedure. In particular, A. Salyukov notes the following: "It seems advisable to abolish the procedure in which the evaluation of fulfillment of the plan for the sale and profit of industrial products is made without taking mark-ups into consideration."¹¹

Many arguments in favor of such a position can be adduced. For example, the functioning of the significant and constantly increasing mass of incentive mark-ups, essentially, outside the sphere of planned effect and control has many negative consequences. First of all, such a procedure brings about an incomplete reflection in the plan of the value indicators of the production volume (which is complicated under the conditions of application of indicators of net output) and distorts the actual sectorial and intersectorial planned proportions and the plan structure. The lack of planned control of the mass of incentive mark-ups has a negative effect on the use of incentive funds for new equipment in the part formed from this additional profit, because at present there is no possibility of planning and approving them. For the same reason there is a significant decrease in the effectiveness of one-time bonuses for the development, mastering and mass output of especially important and highly efficient types of equipment and machinery, as well as of bonuses for the development and mastering of fundamentally new technological processes, which should be paid from the capital of the single fund for the development of science and technology formed from the part of incentive mark-ups.

All this points to the need for the planning at enterprises manufacturing new equipment of incentive wholesale price mark-ups for highly efficient, new products. Incentive mark-ups can be planned within the existing forms of statistical reporting (with the introduction of some improvements). However, it would be efficient

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to introduce a special form for the reflection of the totality of qualitative indicators, to which a new important role is assigned in accordance with the decree on the improvement in the economic mechanism. This special form, along with incentive price mark-ups for highly efficient, new products and products with the state Badge of Quality, should also reflect other mark-ups and additional payments (for example, for export, for additional supply, for higher technical and economic parameters and so forth).

The inclusion of incentive mark-ups in the sphere of planned effect and control, along with a full and objective reflection in the plan of measures for scientific and technical progress, will have an additional stimulating effect on enterprises manufacturing new equipment. This measure will make it possible to plan the amount of deductions from mark-ups into economic incentive funds and into the single fund for the development of science and technology (for the payment of one-time bonuses), which will make the formation of the mentioned incentive sources more substantiated and guaranteed. To retain the existing incentives in the evaluation of fulfillment of planned assignments, they can be corrected by the actual amount of the obtained mark-ups.

For an efficient effect on an accelerated mastering and production of new equipment the system of incentive mark-ups should be reinforced with economic levers directed toward the withdrawal of the high profit obtained by manufacturing enterprises from the sale of obsolete products. The 26th CPSU Congress paid much attention to an improvement in the quality of output and to a cessation of the production of obsolete articles. N. A. Tikhonov's report stressed that for a prompt removal of obsolete equipment from production it is necessary to introduce more effective sanctions for the output of obsolete models. Thus, the congress pointed out the insufficient efficiency of the measures for the removal of inefficient equipment from production.

Wholesale price discounts for obsolete articles should be used as the basic economic levers affecting a prompt removal of such products from production. However, an analysis of the functioning in sectors of systems of wholesale price discounts for obsolete equipment shows that, in practice, the worked out provisions on economic levers directed toward the withdrawal of the high profit obtained from the sale of these products are not applied. For example, in the Ministry of Electrical Engineering Industry during the analyzed period (1972-1979) discounts were not applied at all in 4 years (1975 and 1977-1979) and totaled from 2,000 to 121,000 rubles during other years. The discounts paid to the state budget are incommensurable with the obtained incentive mark-ups. They comprise from 0.006 to 0.51 percent of the latter. A similar situation is also characteristic of other industrial ministries; for example, the Ministry of Heavy and Transport Machine Building and the Ministry of Power Machine Building. Thus, in the indicated ministries in 1974-1979 wholesale price discounts for obsolete products, in essence, were not applied. In connection with this the conclusion that, in practice, the production of articles in the second-quality category is not punished is fully substantiated.

In 1972-1979 wholesale price discounts for obsolete products could be established only upon the expiration of the period of removal of such products from production. This was the basic reason for the fact that, in practice, the discount system "did

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not work." Ministries and departments establish groundlessly long periods of removal of obsolete equipment from production, which often are revised toward an increase. The output of obsolete products and their sale at high prices without discounts for many years is often justified by the necessity to meet the needs of enterprises, lack of articles replacing those removed from production, lack of preparation of production for the output of new articles and so forth. As a result, not only obsolete products are produced for a long time, but the output of highly efficient, new equipment is delayed.

The decree on improvement in the economic mechanism introduced a two-stage discount system, which has a number of advantages as compared with the variants experimentally applied in a number of industrial sectors (Ministry of Electrical Engineering Industry and Power Machine Building, Ministry of Heavy and Transport Machine Building, Ministry of Tractor and Agricultural Machine Building and so forth). The main advantage of this system lies in the fact that wholesale price discounts at the rate of 50 percent of the obtained profit should be applied immediately from the time of certification of an article in the second-quality category. The normative period necessary either for an improvement in this article, making it possible to transfer it into a higher quality category, or for a completion of the preparation of the production of the new article replacing the obsolete article should be established for the manufacturing enterprise from that moment. After the end of this period, in case of continuation of the output of the obsolete article, all the profit actually obtained by the manufacturing enterprise should be withdrawn into the budget without fail.

Such a procedure of establishment of wholesale price discounts for obsolete equipment seems quite substantiated and more efficient as compared with the previously used procedure. However, at present for an efficient functioning of such a discount system it is necessary to further improve and develop it. In particular, in accordance with the Instructions on the Procedure of Establishment of Incentive Mark-ups and Discounts wholesale price discounts are not applied to spare parts and sets produced for products removed from production.¹²

In our opinion, such a definition of products exempt from the application of wholesale price discounts is too general. As the practical experience of the Ministry of the Electrical Engineering Industry has shown in 1980, this makes it possible, as before, not to apply wholesale price discounts to almost all obsolete equipment. Therefore, a more accurate and specific definition of products for whose output economic sanctions (wholesale price discounts) are introduced is needed. This is especially urgent for the machine building sectors whose products are assigned as accessories to other national economic sectors. Therefore, it is advisable to introduce nondepartmental control of the inclusion of articles in the list of products in the second-quality category exempt from the application of wholesale price discounts. Such a nondepartmental expert examination will make it possible to objectively determine the need for a temporary production of a strictly determined range of obsolete equipment as spare parts.

The procedure of recording price discounts for obsolete equipment determined by the cost accounting system of organization of work on new equipment also needs to be improved. At present the sums of wholesale price discounts are not taken into account in the plan, but the evaluation of its fulfillment is made with due

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regard for them. This motivates manufacturing enterprises to remove obsolete equipment from production. However, for a planned effect of discounts and a stricter control of their application by manufacturing enterprises, obviously, it is advisable to plan in absolute terms the sum of profit obtained as a result of the production of obsolete equipment and subject to transfer to the state budget. The possibility of planning and controlling the correct establishment of discounts is determined by the fact that they are applied to all the products in the second-quality category envisaged in the corresponding plans.

The stated proposals for an improvement in the economic mechanism of incentive mark-ups, on the one hand, are directed toward the establishment of a close connection of the stimulation of the production of new equipment with the final national economic results of scientific and technical progress and with the real economic impact obtained in the national economy and, on the other, presuppose the intensification of the interconnection of the results of introduction of scientific and technological achievements with the general system of planning, recording and control. Such an improvement in the system of economic incentives for scientific and technical progress will contribute to a successful solution of the problem of increase in the scale of development of products in the superior category and of the mastering and introduction of highly efficient, new equipment into production set in "Basic Directions in the Economic and Social Development of the USSR for 1981-1985 and for the Period Until 1990."

FOOTNOTES

1. See "Instructions on the Procedure of Establishment of Incentive Wholesale Price Mark-ups for Highly Efficient, New Equipment for Production and Technical Purposes and of Wholesale Price Discounts for Products in the Second-Quality Category, as well as for Products Not Certified During the Established Period" ("Sovershenstvovaniye Khozyaystvennogo Mekhanizma" /Improvement in the Economic Mechanism/, Collection of Documents, Izdatel'stvo Pravda, 1980, p 177).
2. According to the evaluations of A. Glichev and Ya. Kotlikov, the amount of mark-ups for machine building products comprises 3 to 4 percent of the wholesale price and no more than 10 percent of the economic impact (see A. Glichev and Ya. Kotlikov, "Incentives for an Increase in the Quality of Products," VOPROSY EKONOMIKI, No 12, 1979, p 40).
3. V. Ye. Astaf'yev, L. Ya. Povolotskiy and V. P. Khaykin, "Ekonomicheskii Mekhanizm Uskoreniya Nauchno-Tekhnicheskogo Progressa (Opyt i Problemy)" /Economic Mechanism of Acceleration of Scientific and Technical Progress (Experience and Problems)/, Izdatel'stvo Ekonomika, 1977, p 167.
4. L. I. Shevchenko, "Tsena i Stimulirovaniye Proizvodstva i Primeneniya Novoy Tekhniki" /The Price and Stimulation of the Production and Use of New Equipment/, Kiev, 1976, p 92.
5. See V. Ye. Astaf'yev, L. Ya. Povolotskiy and V. P. Khaykin, "Ekonomicheskii Mekhanizm Uskoreniya Nauchno-Tekhnicheskogo Progressa (Opyt i Problemy)," p 199; L. I. Shevchenko, "Tsena i Stimulirovaniye Proizvodstva i Primeneniya Novoy Tekhniki," p 93.

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6. See "Planirovaniye i Stimulirovaniye Nauchno-Tekhnicheskogo Progressa" /Planning and Stimulation of Scientific and Technical Progress/, Izdatel'stvo Ekonomika, 1972, p 229.
7. The procedure of establishment of incentive mark-ups set forth in the 1974 method began to be in effect in the electrical engineering industry in 1972.
8. K. Marx and F. Engels, "Soch." /Works/, Vol 20, p 321.
9. See "Sovershenstvovaniye Planirovaniya i Ekonomicheskogo Stimulirovaniya Nauchno-Tekhnicheskogo Progressa" /Improvement in the Planning and Economic Stimulation of Scientific and Technical Progress/, Izdatel'stvo Moskovskogo Universiteta, 1977, p 133; "Nauchno-Tekhnicheskii Progress i Ekonomika Sotsializma" /Scientific and Technical Progress and the Economy of Socialism/, Izdatel'stvo Ekonomika, 1979, p 47; V. P. Kochikyan, V. I. Koshkin and Ya. G. Lyubinetskiy, "Kompleksnaya Sistema Stimulirovaniya Tekhnicheskogo Progressa" /Overall System of Stimulation of Technical Progress/, Izdatel'stvo Mysl', 1980, p 85.
10. See "Sovershenstvovaniye Khozyaystvennogo Mekhanizma," p 178.
11. A. T. Salyukov, "Vliyaniye Finansovogo Mekhanizma na Povysheniye Kachestva Produktii" /Effect of the Financial Mechanism on an Increase in the Quality of Output/, Izdatel'stvo Finansy, 1980, p 86.
12. See "Sovershenstvovaniye Khozyaystvennogo Mekhanizma," p 178.

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